

Federal Acquisition Advisory Panel:

Presentation concerning commercial practices used in acquiring IT and business process services

Todd Furniss, COO Everest Group Presentation

March 30, 2005

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Everest's mission is to enhance the quality and result of client efforts to investigate and implement sourcing options



Everest helps clients determine if outsourcing is appropriate

- Develop the business case to determine how value can be created
- Help educate stakeholders on the possibilities and risks

✓ If clients choose to outsource, Everest assists clients with the transaction

- Help clients manage the complex aspects of outsourcing transactions
- Apply proven approaches to engaging and evaluating the supplier market
- Incorporate appropriate incentives into the outsourcing agreement
- Establish governance models to create and sustain long-term relationships

Experience with IT and Business Process functions incorporating delivery options ranging from joint ventures to shared services and outsourcing

Everest has been involved with over 500 outsourcing transactions making us one of the most experienced enterprise advisors in the market



- Founded in 1991
- Offices in U.S., Canada, India, and Australia
- Focused exclusively on sourcing advisory services
- Independent advice not affiliated with any supplier
- Recognized for our insight and focus in complex situations

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Experience with over 30 distinct business processes in IT, HR and F&A outsourcing

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Our perspective derives from the synergy of insight, judgment, and specialized experience as applied to complex client situations...



Judgment (team level)

focus

∠ Energy

Model

Consulting

∠ Outsourcing

Expertise

Background

Functional, Domain

Healthcare

Manufacturing

Retail/Distribution

Financial Services

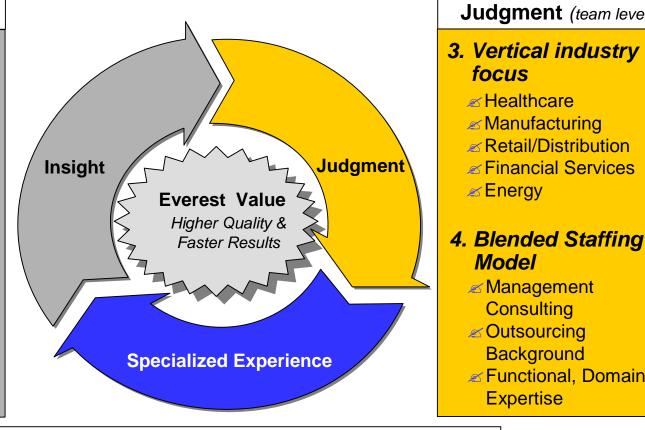
Insight (firm level)

1. Focused exclusively on outsourcing

Dedicated to understanding and implementing best practices

2. Everest Research Institute

- Dedicated research arm
- Focused on industry trends & issues
- Actionable information



Experience (firm level)

5. Extensive frameworks and templates

- Based on experience gained from over 500 transactions

... which could lead to a certain bias in this discussion



- The majority of our clients are not bound by the policy interests embedded in the FAR
- Our procurement experience is focused primarily on sourcing, ranging from internal shared services to outsourcing
- Whereas we do not believe that outsourcing is appropriate for every client, we believe that the generalized value proposition of outsourcing may be compelling
- Since we focus on serving clients with complex problems and goals, we tend not to focus on the procurement of commodities or the sourcing of commoditized services

As a result, what follows applies primarily to sourcing and procurement of complex functions and services

We observe certain commercial principles, the implications of which drive our procurement process



Principles

- Total solution cost ? Total potential value for buyer
- Buyers have different needs and constraints

Suppliers have different strengths and constraints

Generally, there may be multiple "optimal" solutions for a given client problem

Implications driving best practice

- Exclusive procurement focus on the cost of the solution misses the opportunity for additional value capture
- "Standard" solutions can sometimes produce ill targeted benefits that in fact do not create value for the buyer
 - The procurement process must therefore channel suppliers' focus into the objectives and outcomes that are most important to the buyer
- For the procurement of complex services, intimate understanding of supplier's capabilities is more important than maximizing the quantity of suppliers that participate
- A procurement process that allows for unique solutions can still result in best price

The resulting Everest approach is a significant departure from traditional procurement processes



Principles

Suppliers commercial incentive drives continuous improvement in their core business

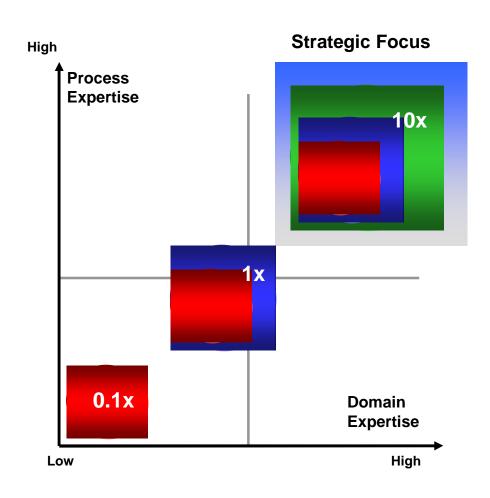
Commercial suppliers are <u>inevitably</u> economically rational/motivated

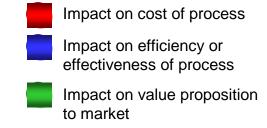
Implications driving best practice

- In an effective procurement process the buyer does not dictate the solution to the supplier
 - The suppliers may have a better solution to offer than that asserted by the buyer
 - Open communication allows the buyer to understand how the supplier's solution generates costs and creates value
 - An iterative, collaborative design process allows the parties to optimize each supplier's solution
- In recognizing that the supplier's commercial interest is inevitable, the best practice is to channel the supplier's economic incentives to the supplier and buyer's mutual benefit
 - Knowing how suppliers realize value is critical to creating options with a full understanding and fair management of the balance between buyer and supplier interests

We describe the additional potential value for the buyer (beyond solution cost) in our Total Value Equation™

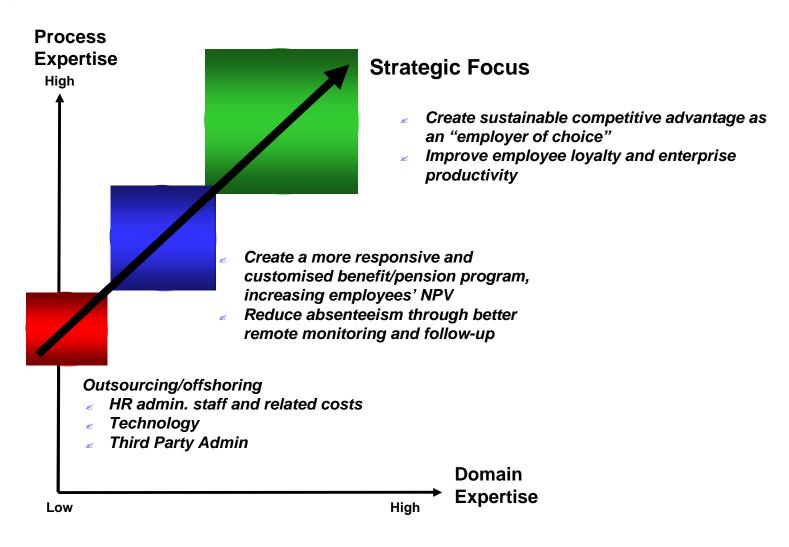






As an example, buyers of HR services can realize tangible benefits on the enterprise level





Source: Everest HRO Market Analysis April 2003

In developing our methodology, we found that traditional sourcing approaches may be suboptimal in procuring complex services



		Governar	nce		
Enterprise Sourcing Strategy (ESS)	Value Creation Analysis (VCA)	Solution Development (SD)	Evaluation & Negotiation (if outsourced)	Change Management	Ongoing Governance
Procurement decisions made on functional level with insufficient focus on enterprise objectives	Incomplete business case with an excessive focus on unit cost reduction, rather than reduction of total cost of ownership or maximization of total value	Traditional RFP process is indifferent to supplier differences and how they create or realize value	Evaluation focused on a normalization of supplier capabilities rather than on understanding each supplier's strengths and weaknesses Adversarial and positional negotiations miss opportunities to align supplier economic interests on buyer objectives	Little to no focus on preparing the organization to incorporate the new supplier relationship and the services being procured	Traditional approach to governance relies on contract management but not on relationship management for value capture over time
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We observed, captured and implemented practices anchored in commercial principles required to successfully procure complex services



	Governance									
Enterprise Sourcing Strategy (ESS)	Value Creation Analysis (VCA)	Solution Development (SD)	Evaluation & Negotiation (if outsourced)	Change Management	Ongoing Governance					
Sourcing strategy and priorities are directly derived from enterprise level objectives	Total value creation and cost discovered and analyzed as part of the business case for a specific sourcing opportunity Buyer cost includes retained and other costs	Non traditional competitive joint design process to focus solution design on buyer needs and constraints	Interest based negotiation to explicitly align supplier economic interest with buyer interests	Preparing organization for the changes required to implement the solution so as to minimize intellectual property loss and accelerate the realization of value	Focus on creating a mechanism for managing incentive alignment and value capture over term of buyer-supplier relationship					

Which in turn drive our answers to the questions from this panel



- What is the commercial practice with respect to use of head-to-head competition for services contracts, task orders, etc.?
- What is commercial practice regarding use of firm-fixed price contracts for services?
- What are the terms of the contracts, and what provisions are made for reopening competition?
- How frequently are time and materials contracts used, and under what circumstances?
- Are share-in-savings (or gain savings) contracts used, and under what circumstances?
- What types of performances incentives are normally used, and how is performance tracked?

Everest contact details



Todd Furniss, Chief Operating Officer

Everest Partners LP

Two Galleria Tower 13455 Noel Road, Suite 2100 Dallas, TX, USA, 75240 (214) 451-3000

Everest Canada

Mississauga, Ontario, Canada (905) 405-5640

Everest Australasia

North Sydney, New South Wales, Australia +61 2 9923 1366

Everest India

Gurgaon, 122016 India +91 124 245 0505 ext. 109 and +91 124 500 4530 (direct)

> Web: www.everestgrp.com Email: info@everestgrp.com



Federal Acquisition Advisory Panel:

Appendix

Todd Furniss, COO Everest Group Presentation

March 30, 2005

Todd Furniss Biography



- Todd Furniss is widely known for his deep insight into managing organizational and people dynamics, as well as his ability to create momentum to achieve organizational vision. As COO at Everest Group, he manages through all firm activities, overseeing consulting projects in all major industries and heading a consultants who advise Fortune 500 clients worldwide.
- Industry/equity analysts and institutional investors often consult Mr. Furniss on current outsourcing developments, and he is frequently sought as a presenter at industry conferences and corporate management events. Prior to joining Everest, he served as Director, Corporate Business Development, at EDS, where he was responsible for developing and executing all growth strategies in the Asia Pacific region. His extensive work in large-scale initiatives for many years in the Asian, North American and European regions gives him broad insight into identification of international approaches to growth markets and execution of business alliances and solution development.
- Mr. Furniss currently is deeply involved in assessing trends and developments in the offshore outsourcing market, assessing key success factors and developing bestpractice approaches to the use of low cost labor pools, HR outsourcing, IT outsourcing and a range of other business process outsourcing activities.
- Mr. Furniss has a BA (Political Science) from Old Dominion University and a J.D. from George Mason University School of Law.